ERNST & YOUNG
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30 November 2010

The Board of Directors
China New Materials Holdings Limited
CCB International Capital Limited
Piper Jaffray Asia Limited

Dear Sirs,

We set out below our report on the financial information of China New Materials Holdings Limited (the "Company"), formerly known as China Enviro New Materials Holdings Limited, and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated statements of comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the three years ended 31 December 2007, 2008 and 2009 and the five-month period ended 31 May 2010 (the "Relevant Periods"), the consolidated statements of financial position as at 31 December 2007, 2008 and 2009 and 31 May 2010 and the statements of financial position of the Company as at 31 December 2009 and 31 May 2010, and a summary of significant accounting policies and other explanatory notes (the "Financial Information"), and the financial information for the five-month period ended 31 May 2009 (the "31 May 2009 Financial Information"), for inclusion in the prospectus of the Company dated 30 November 2010 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 27 August 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Group is principally engaged in the development, manufacture and sale of organic chemical products consisting primarily of 1,4-butanediol ("BDO") and its derivative products: tetrahydrofuran ("THF") and γ-butyrolactone ("GBL"). The Company and its subsidiaries have adopted 31 December as their financial year end date. The particulars of the Company and its subsidiaries are set out in Note 1 of Section II below.

No audited financial statements have been prepared for the Company and the companies now comprising the Group, except for two subsidiaries which were established in Mainland China and a subsidiary which was established in Hong Kong, since the respective dates of their incorporation/establishment as these companies were either newly incorporated or were not subject to statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation or have not carried on any business since the respective dates of their incorporation. The statutory audited financial statements or management accounts of the Group's two subsidiaries incorporated in Mainland China and a subsidiary incorporated in Hong Kong were prepared in accordance with the relevant accounting principles applicable to these companies in their respective jurisdictions. Except for the statutory audited financial statements for the year ended 31 December 2009 of a subsidiary incorporated in Hong Kong, none of the subsidiaries were audited by us.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated statements of financial position, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Relevant Periods and the statements of financial position of the Company as at 31 December 2009 and 31 May 2010 (collectively, the "Underlying Financial Statements") in accordance with the International Financial Reporting Standards ("IFRSs").

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustments made thereon.

The Directors are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements, the Financial Information and 31 May 2009 Financial Information in accordance with IFRSs and for the contents of the Prospectus in which this report is included. The directors of the respective companies of the Group are responsible for the preparation and the true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. In preparing the Financial Information and the 31 May 2009 Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgement and estimates made are reasonable.

It is our responsibility to form an independent opinion and a review conclusion, based on our audit and review, on the Financial Information and the 31 May 2009 Financial Information, respectively, and to report our opinion and review conclusion thereon to you.

PROCEDURES PERFORMED IN RESPECT OF THE FINANCIAL INFORMATION

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements and is presented in accordance with the basis set out in Note 1 of Section II. For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

PROCEDURES PERFORMED IN RESPECT OF THE 31 MAY 2009 FINANCIAL INFORMATION

For the purpose of this report, we have also performed a review of the 31 May 2009 Financial Information, for which the Directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the 31 May 2009 Financial Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS

In our opinion, for the purpose of this report and on the basis of presentation as set out in Note 1 of Section II, the Financial Information gives, a true and fair view of the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 31 May 2010 and that of the Company as at 31 December 2009, and 31 May 2010 and of the consolidated results and consolidated cash flows of the Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE 31 MAY 2009 FINANCIAL INFORMATION

Based on our review which does not constitute an audit, nothing has come to our attention that causes us to believe that the 31 May 2009 Financial Information, for the purpose of this report, does not give a true and fair view of the consolidated results and cash flows of the Group for the five-month period ended 31 May 2009.

I FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Five–month period ended 31 May	
		2007	**2008**	**2009**	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
REVENUE	*6*	882,669	883,298	745,363	272,684	383,901
Cost of sales		(694,844)	(695,855)	(485,941)	(176,400)	(249,037)
Gross profit		187,825	187,443	259,422	96,284	134,864
Other income and gains	*6*	3,357	4,234	1,736	205	11,070
Selling and distribution costs		(13,440)	(15,237)	(15,870)	(6,340)	(6,361)
Administrative expenses		(8,423)	(13,910)	(12,595)	(1,886)	(6,380)
Other expense		–	–	–	–	(657)
Finance costs	*7*	(2,871)	(7,941)	(2,096)	–	(2,450)
PROFIT BEFORE TAX	*8*	166,448	154,589	230,597	88,263	130,086
Income tax expense	*10*	(20,332)	(20,681)	(58,515)	(22,233)	(33,155)
PROFIT FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		146,116	133,908	172,082	66,030	96,931
Profit for the year/period and total comprehensive income for the year/period attributable to:						
Equity holders of the Company		129,014	133,908	172,082	66,030	96,931
Non–controlling interests		17,102	–	–	–	–
		146,116	133,908	172,082	66,030	96,931

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2007 RMB'000	As at 31 December 2008 RMB'000	As at 31 December 2009 RMB'000	As at 31 May 2010 RMB'000
NON–CURRENT ASSETS					
Property, plant and equipment	13	428,451	439,844	432,328	420,549
Prepaid land lease payments	14	6,386	6,135	5,884	82,427
Deposits for acquisitions of property, plant and equipment	15	2,711	425	215,544	91,992
Deposits for prepaid land lease payment		–	75,000	71,987	–
Total non–current assets		437,548	521,404	725,743	594,968
CURRENT ASSETS					
Inventories	17	10,953	12,873	9,423	12,442
Trade receivables	18	7,618	17,534	24,437	18,396
Prepayments, deposits and other receivables	19	1,670	19,633	49,042	44,332
Amounts due from related companies	29	1,204	–	–	–
Pledged bank deposits	20	–	–	50,000	–
Cash and cash equivalents	20	78,166	107,261	324,139	666,508
Total current assets		99,611	157,301	457,041	741,678
CURRENT LIABILITIES					
Trade and bills payables	21	1,830	1,703	51,738	2,067
Other payables and accruals	23	57,485	8,317	16,471	14,455
Tax payable		5,106	4,567	17,419	12,700
Interest–bearing bank loan	22	–	–	100,000	100,000
Amount due to a director	29	21,407	89,860	76,412	80,804
Amount due to the immediate holding company	29	–	–	174,326	283,225
Amounts due to related companies	29	11,326	345	423	469
Total current liabilities		97,154	104,792	436,789	493,720
NET CURRENT ASSETS		2,457	52,509	20,252	247,958
TOTAL ASSETS LESS CURRENT LIABILITIES		440,005	573,913	745,995	842,926
Net assets		440,005	573,913	745,995	842,926
EQUITY					
Issued capital	24	1	1	1	1
Reserves	25	440,004	573,912	745,994	842,925
Total equity		440,005	573,913	745,995	842,926

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Issued capital	Statutory reserve funds *(Note)*	Retained profits	Total	Non–controlling interest	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	1	25,222	224,582	249,805	44,084	293,889
Total comprehensive income for the year	–	–	129,014	129,014	17,102	146,116
Acquisition of non–controlling interest by the Group	–	4,452	56,734	61,186	(61,186)	–
Profit appropriation to reserve	–	14,654	(14,654)	–	–	–
At 31 December 2007 and 1 January 2008	1	44,328	395,676	440,005	–	440,005
Total comprehensive income for the year	–	–	133,908	133,908	–	133,908
Profit appropriation to reserve	–	14,666	(14,666)	–	–	–
At 31 December 2008 and 1 January 2009	1	58,994	514,918	573,913	–	573,913
Total comprehensive income for the year	–	–	172,082	172,082	–	172,082
Profit appropriation to reserve	–	18,359	(18,359)	–	–	–
At 31 December 2009 and 1 January 2010	1	77,353	668,641	745,995	–	745,995
Total comprehensive income for the period	–	–	96,931	96,931	–	96,931
Profit appropriation to reserve	–	11,616	(11,616)	–	–	–
At 31 May 2010	1	88,969	753,956	842,926	–	842,926
(Unaudited)						
At 1 January 2009	1	58,994	514,918	573,913	–	573,913
Total comprehensive income for the period	–	–	66,030	66,030	–	66,030
Profit appropriation to reserve	–	7,858	(7,858)	–	–	–
At 31 May 2009	1	66,852	573,090	639,943	–	639,943

Note: In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 25% of the registered capital after such usages.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Five–month period ended 31 May	
		2007	2008	2009	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		166,448	154,589	230,597	88,263	130,086
Adjustments for:						
Finance costs	*7*	2,871	7,941	2,096	–	2,450
Bank interest income	*8*	(690)	(715)	(735)	(205)	(589)
Depreciation	*8*	10,144	10,593	12,179	4,593	13,860
Recognition of prepaid land premiums	*8*	251	251	251	105	762
		179,024	172,659	244,388	92,756	146,569
Decrease/(increase) in inventories	*17*	23,601	(1,920)	3,450	1,523	(3,019)
Decrease/(increase) in trade receivables	*18*	20,691	(9,916)	(6,903)	(14,496)	6,041
(Increase)/decrease in prepayments, deposits and other receivables		(1,015)	(17,963)	(28,027)	(28,387)	7,012
Increase/(decrease) in trade and bills payables	*21*	(47,446)	(127)	35	(1,317)	329
Increase/(decrease) in other payables and accruals		603	(20,864)	8,154	2,167	(2,016)
Cash generated from operations		175,458	121,869	221,097	52,246	154,916
Interest paid	*7*	(2,871)	(7,941)	(2,096)	–	(2,450)
Interest received	*6*	690	715	735	205	589
Income tax paid		(20,170)	(21,220)	(45,663)	(15,809)	(37,874)
Net cash flows from operating activities		153,107	93,423	174,073	36,642	115,181

		Year ended 31 December			Five–month period ended 31 May	
		2007	2008	2009	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(178,560)	(17,247)	(4,663)	(49)	(2,081)
(Increase)/decrease in deposits paid for purchase of property, plant and equipment		–	–	(165,119)	95	73,552
(Additions)/refund of deposits paid for purchase of prepaid land lease payments		–	(75,000)	3,013	–	(6,897)
(Increase)/decrease in pledged deposits		20,000	–	–	–	–
Net cash flows (used in)/from investing activities		(158,560)	(92,247)	(166,769)	46	64,574
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loan		–	–	100,000	–	–
Increase/(decrease) in amount due to a director		(539)	65,587	(13,448)	158	4,392
Increase in amount due to the immediate holding company		–	–	174,326	–	108,899
Decrease/(increase) in amounts due from related companies		(1,204)	1,204	–	–	–
Increase/(decrease) in amounts due to related companies		9,731	(10,981)	78	46	46
Increase in prepayments, deposits and other receivables		–	–	(1,382)	–	(723)
Increase/(decrease) in other payables and accruals		27,891	(27,891)	–	–	–
(Increase)/decrease in pledged deposit		–	–	(50,000)	–	50,000
Net cash flows from financing activities		35,879	27,919	209,574	204	162,614

		Year ended 31 December			Five–month period ended 31 May	
		2007	2008	2009	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
NET INCREASE IN CASH AND CASH EQUIVALENTS		30,426	29,095	216,878	36,892	342,369
Cash and cash equivalents at beginning of year/period		47,740	78,166	107,261	107,261	324,139
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		78,166	107,261	324,139	144,153	666,508
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	*20*	78,166	107,261	324,139	144,153	666,508

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	31 December 2009 RMB'000	31 May 2010 RMB'000
NON–CURRENT ASSETS			
Investments in subsidiaries	16	1	1
CURRENT ASSETS			
Cash and cash equivalents	20	88	88
CURRENT LIABILITIES			
Other payables and accruals	23	790	352
Amount due to a subsidiary		2,353	3,000
Amount due to a director		121	271
Total current liabilities		3,264	3,623
NET CURRENT LIABILITIES		(3,176)	(3,535)
TOTAL ASSETS LESS CURRENT LIABILITIES		(3,175)	(3,534)
Net liabilities		(3,175)	(3,534)
DEFICIENCY IN ASSETS			
Issued capital	24	1	1
Accumulated loss		(3,176)	(3,535)
Net deficiency in assets		(3,175)	(3,534)

II NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company is a limited company incorporated in the Cayman Islands on 27 August 2009. The Company's registered office is located at the office of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Date of incorporation/ establishment	Place of incorporation/ registration and operations	Nominal value of issued shares/ registered capital	Percentage of equity attributable to the Company 31 December 2007	2008	2009	31 May 2009	2010	Principal activities
Directly held:									
Full Smart Development Limited [(1)] ("Full Smart") 盈才發展有限公司	25 October 2000	Independent State of Samoa	Ordinary US$100	100	100	100	100	100	Investment holding
Eminent Gains Limited [(1)] ("Eminent Gains") 嘉益有限公司	30 July 2009	The British Virgin Islands	Ordinary US$1	–	–	100	–	100	Investment holding
Indirectly held:									
Mint World (HK) Limited [(2)] ("Mint World") 銘華香港有限公司	12 February 2008	Hong Kong	Ordinary HK$1,000	–	100	100	100	100	Investment holding
King General (HK) Limited [(3)] ("King General") 晉君（香港）有限公司	18 August 2009	Hong Kong	Ordinary HK$1	–	–	100	–	100	Investment holding
Dongying Shengli A&C Chemical Co., Ltd.*[(4)] ("Dongying Shengli") 東營勝利中亞化工有限公司	28 August 2003	The People's Republic of China (the "PRC")/ Mainland China	RMB180,000,000	100	100	100	100	100	Manufacture and sale of organic chemical products
Shandong Full Win New Material Science & Technology Co., Ltd.*[(5)] ("Full Win") 山東匯盈新材料科技有限公司	2 April 2008	The People's Republic of China (the "PRC")/ Mainland China	HK$209,998,880	–	100	100	100	100	Manufacture and sale of organic chemical products

* *Wholly foreign-owned enterprises*

(1) No audited financial statements have been prepared for each of the Relevant Periods as these subsidiaries are not subject to any statutory audit requirements in their jurisdiction of incorporation. The shares of Full Smart were subject to a pledge since September 2007. The pledge was subsequently removed pursuant to a board resolution of Full Smart in April 2009. Further details are set out in note 23 to the Financial Information.

(2) The statutory financial statements of Mint World for the period from 12 February 2008 (date of incorporation) to 31 December 2008 was audited by W.K. Pang & Co., certified public accountants in Hong Kong. The statutory financial statements for the year ended 31 December 2009 was audited by Ernst & Young.

(3) No statutory financial statements have been issued for King General as King General was incorporated on 18 August 2009 and the first statutory financial statements is only required to be issued for the period from 18 August 2009 (date of incorporation) to 31 December 2010.

(4) The statutory financial statements of Dongying Shengli for each of the three years ended 31 December 2007, 2008 and 2009 were audited by Shandong Jianxin Certified Public Accountants Company Limited (山東鑒鑫會計師事務所有限公司). The equity interest of Dongying Shengli was subject to a pledge during November 2007 to September 2010. Further details are set out in Note 23 to the Financial Information.

(5) The statutory financial statements of Full Win for the period from 2 April 2008 (date of establishment) to 31 December 2008 and for the year ended 31 December 2009 were audited by Shandong Jianxin Certified Public Accountants Company Limited (山東鑒鑫會計師事務所有限公司).

Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "History, Reorganization and Corporate Structure" in the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on 25 September 2009. The companies now comprising the Group are under common control of Mr. Zhang Kaijun ("Mr. Zhang") before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods and as further explained in Note 3 below.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of acquisition, incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2007, 2008 and 2009 and 31 May 2010 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at the respective dates.

All intra-group transactions and balances have been eliminated on consolidation.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB") and the International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The IASB issued a number of new or revised IFRSs which are generally effective for annual periods beginning on or after 1 January 2007, 1 January 2008 and 1 January 2009 and 1 January 2010.

For the purpose of preparing and presenting the Financial Information, the Group has early adopted all these new and revised IFRSs that are relevant to the Group's operations as at the beginning of the Relevant Periods.

The accounting policies set out in note 3 below have been applied consistently to all years in the Financial Information.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information:

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [2]
IFRS 7 Amendment	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfer of Financial Assets*[4]
IFRS 9	*Financial Instruments* [5]
IAS 24 (Revised)	*Related Party Disclosures* [3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
IFRIC 14 (Amendments)	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, Improvements to IFRSs 2010 has been issued which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34, and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new, revised and amended IFRSs and IFRIC upon initial application. So far, it considers that the new and revised IFRS and IFRICs are unlikely to have any significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial information includes the financial statements of the Company and its subsidiaries for the years ended 31 December 2007, 2008 and 2009 and the five-month period ended 31 May 2010. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Merger accounting for business combinations under common control

The Financial Information has incorporated the financial statement items of the consolidating entities subject to common control in the Relevant Periods as if they had been consolidated from the date when the combining entities first came under the control of the controlling party.

The net assets of the consolidating entities are consolidated using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirers' interests in the fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of Reorganisation under common control.

The consolidated statements of comprehensive income include the results of each of the consolidating entities from the earliest date presented or since the date when the consolidating entities first came under common control, whichever is a shorter period, regardless of the date of the Reorganisation under common control.

All income, expenses, and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of non-controlling interests are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

	Estimated useful lives	Residual values
Buildings	30 years	0%
Plant and machinery	12-20 years	5%
Motor vehicles	10 years	5%
Furniture, fixtures and office equipment	5 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each statement of financial position date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and other assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments represent the cost of land use rights paid to the PRC government authorities. Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and bills receivables, other receivables and amounts due from related companies, which are classified as loans and receivables.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Impairment of financial assets

The Group assesses at each date of statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortized cost (including interest-bearing bank loans)

Financial liabilities including trade and bills payables, other payables, amount due to a director, amount due to the immediate holding company, amounts due to related companies, and interest-bearing bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within "finance costs" in the statement of comprehensive income.

Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognized initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognized at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the statement of financial position date; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognised in accordance with IAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials/Parts and consumables	Purchase cost on the weighted average basis
Finished goods	Cost of direct materials and labour and an appropriate proportion of overheads

Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statements of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. These subsidiaries are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated statements of comprehensive income as they become payable in accordance with the rules of the central pension schemes.

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organized by the PRC government. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the consolidated statements of comprehensive income by way of a reduced depreciation charge.

Borrowing costs

All borrowing costs are recognised as expenses in the consolidated statements of comprehensive income in the period in which they are incurred.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the financial position date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

(a) where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries and an interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(a) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries and an interest in a joint venture, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currencies

The Financial Information is presented in RMB, which is the functional and presentation currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(1) Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management's judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, and the amount of doubtful debt expenses or write-back of provision for trade receivables in the period in which such estimate has been changed.

(2) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in Note 3: Impairment of non-financial assets other than goodwill. The recoverable amount of an asset, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(3) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

(4) Net realizable value of inventories

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

(5) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(6) Income tax provisions

Significant judgment is required in determining the provision for corporate income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

5. OPERATING SEGMENT INFORMATION

The directors consider that the Group's activities constitute one operating segment as all of the Group's operations relate to the manufacture and sale of organic chemical products consisting primarily of BDO and its derivative products, THF and GBL. The management of the Group makes decisions about resource allocation and performance assessment on a group basis.

All of the Group's revenue was attributable to the external customers in the PRC. All non-current assets of the Group are located in the PRC.

None of the Group's sales to a single external customer amounted to 10% or more of the Group's revenue during the Relevant Periods.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and discounts.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue					
Sale of goods	882,669	883,298	745,363	272,684	383,901
Other income					
Bank interest income	690	715	735	205	589
Subsidy income from the PRC government authorities	–	–	160	–	190
Steam sales income	–	–	841	–	9,286
	690	715	1,736	205	10,065
Gains					
Exchange difference, net	2,667	3,519	–	–	1,005
	3,357	4,234	1,736	205	11,070

7. FINANCE COSTS

	Year ended 31 December			Five-month period ended 31 May	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest on bank loan	–	–	2,093	–	2,450
Interest paid to a previous potential investor *(note 23)*	–	7,941	–	–	–
Interest arising from discounted bills	2,871	–	3	–	–
	2,871	7,941	2,096	–	2,450

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December			Five-month period ended 31 May	
		2007	2008	2009	2009	2010
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cost of inventories sold		694,844	695,855	485,941	176,400	249,037
Depreciation	*13*	10,144	10,593	12,179	4,593	13,860
Recognition of prepaid land lease payments	*14*	251	251	251	105	762
Minimum lease payments under operating leases in respect of building		408	445	460	191	1,082
Auditors' remuneration		50	68	68	28	28
Finance costs	*7*	2,871	7,941	2,096	–	2,450
Employee benefits expenses (including directors' remuneration *(note 9)*):						
– Wages and salaries		4,570	5,633	6,232	2,483	2,134
– Retirement benefit scheme contributions		1,088	1,123	804	237	289
– Staff welfare and other expenses		277	429	195	36	168
Bank interest income	*6*	(690)	(715)	(735)	(205)	(589)

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Details of Directors' remuneration are as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Fees	–	–	–	–	–
Other emoluments					
Salaries, bonuses, allowance and benefits in kind	66	401	397	165	165
Pension scheme contributions	8	8	7	3	3
	74	409	404	168	168

	Fees	Salaries, bonuses allowances and benefits in kind	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2007			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	15	15
Mr. Lu Wei	–	44	44
Mr. Wong Yee Shuen Wilson	–	15	15
	–	74	74
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

	Fees	Salaries, bonuses allowances and benefits in kind	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2008			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	180	180
Mr. Lu Wei	–	49	49
Mr. Wong Yee Shuen Wilson	–	180	180
	–	409	409
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

	Fees	Salaries, bonuses allowances and benefits in kind	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2009			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	180	180
Mr. Lu Wei	–	44	44
Mr. Wong Yee Shuen Wilson	–	180	180
	–	404	404
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

	Fees	Salaries, bonuses allowances and benefits in kind	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Five-month period ended 31 May 2009			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	75	75
Mr. Lu Wei	–	18	18
Mr. Wong Yee Shuen Wilson	–	75	75
	–	168	168
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

	Fees	Salaries, bonuses allowances and benefits in kind	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Five-month period ended 31 May 2010			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	75	75
Mr. Lu Wei	–	18	18
Mr. Wong Yee Shuen Wilson	–	75	75
	–	168	168
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

No remunerations were made to Mr. Zhang during the Relevant Periods as Mr. Zhang, being the majority beneficial interests owner of the Group, has waived his entitlement to remuneration from the Group during the Relevant Periods.

(b) Five highest paid employees

The number of the five highest paid employees of the Group during the Relevant Periods is as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Directors	1	2	2	2	2
Non-director, highest paid employees	4	3	3	3	3
	5	5	5	5	5

Details of the remuneration paid to the above non-director, highest paid employees for the Relevant Periods are set out below:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries, allowances and benefits in kind	156	127	126	53	90
Pension scheme contributions	22	17	17	5	10
	178	144	143	58	100

The number of the above non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Nil to RMB1,000,000	4	3	3	3	3

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

The Company, which was incorporated in the Cayman Islands, is not subject to income tax.

Full Smart, which was registered in Samoa, is not subject to income tax.

Eminent Gains and King General, which were incorporated in the British Virgin Islands, are not subject to income tax.

Dongying Shengli, the subsidiary of the Company Incorporated in Mainland China, is located in Dongying City, an Open Coastal City in the PRC, and is therefore subject to a preferential income tax rate of 24% before 1 January 2008. In accordance with the relevant income tax laws and regulations of the PRC for foreign-invested enterprise, Dongying Shengli is exempted from the PRC Corporate Income Tax Law ("CIT") for two years commencing from the first profitable year of its operations and is entitled to a 50% relief from the CIT for the following three years. As 2004 was the first year when Dongying Shengli recorded assessable profits, Dongying Shengli was entitled to an exemption from CIT for 2004 and 2005 and to a 50% reduction in the applicable statutory rate, which was 12%, for 2006 and 2007.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Pursuant to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax issued on 28 December 2007, Dongying Shengli shall be levied at a rate of 12.5% in 2008 and 25% in 2009 and the years thereafter.

Full Win, which was established in 2008 in Zibo City, PRC, is subject to income tax rate of 25%. No provision for income tax has been made as Full Win is at the stage of pre-operation and has no assessable profits earned during the Relevant Periods.

Pursuant to the New Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008 and 2009 and 31 May 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB13,925,000, RMB31,441,000 and RMB41,276,000 at 31 December 2008, 31 December 2009 and 31 May 2010, respectively.

The major components of the income tax expense for the Relevant Periods are as follows:

	Year ended 31 December			**Five-month period ended 31 May**	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current-PRC					
Charge for the year	20,332	20,681	58,515	22,233	33,155
Deferred	–	–	–	–	–
Total tax charged for the year	20,332	20,681	58,515	22,233	33,155

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates to the tax expense at the Group's effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before tax	166,448	154,589	230,957	88,263	130,086
Tax at the applicable tax rates	54,746	39,910	58,498	22,119	32,567
Tax effect of:					
Lower tax rates enacted by local authorities	(34,838)	(19,992)	–	–	–
Expenses not deductible for tax	424	689	492	182	279
Tax losses not recognised	–	74	268	7	490
Income not subject to tax	–	–	(743)	(75)	(181)
Tax charge at the Group's effective tax rate	20,332	20,681	58,515	22,233	33,155

11. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007, net of accumulated depreciation	11,903	169,747	290	31	–	181,971
Additions	63	1,585	–	91	254,885	256,624
Transfers	–	613	–	–	(613)	–
Depreciation	(411)	(9,681)	(37)	(15)	–	(10,144)
At 31 December 2007 and at 1 January 2008, net of accumulated depreciation	11,555	162,264	253	107	254,272	428,451
Additions	–	9,409	–	311	12,266	21,986
Transfers	–	8,331	–	–	(8,331)	–
Depreciation	(447)	(10,068)	(37)	(41)	–	(10,593)
At 31 December 2008 and at 1 January 2009, net of accumulated depreciation	11,108	169,936	216	377	258,207	439,844
Additions	–	192	260	293	3,918	4,663
Transfers	–	253,904	–	–	(253,904)	–
Depreciation	(378)	(11,721)	(37)	(43)	–	(12,179)

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009 and at 1 January 2010, net of accumulated depreciation	10,730	412,311	439	627	8,221	432,328
Additions	648	404	386	456	187	2,081
Transfers	–	–	–	–	–	–
Depreciation	(181)	(13,560)	(46)	(73)	–	(13,860)
At 31 May 2010, net of accumulated depreciation	11,197	399,155	779	1,010	8,408	420,549
At 1 January 2007						
Cost	12,963	193,788	385	47	–	207,183
Accumulated depreciation	(1,060)	(24,041)	(95)	(16)	–	(25,212)
Net carrying amount	11,903	169,747	290	31	–	181,971
At 31 December 2007 and 1 January 2008						
Cost	13,026	195,986	385	138	254,272	463,807
Accumulated depreciation	(1,471)	(33,722)	(132)	(31)	–	(35,356)
Net carrying amount	11,555	162,264	253	107	254,272	428,451
At 31 December 2008 and 1 January 2009						
Cost	13,026	213,726	385	449	258,207	485,793
Accumulated depreciation	(1,918)	(43,790)	(169)	(72)	–	(45,949)
Net carrying amount	11,108	169,936	216	377	258,207	439,844
At 31 December 2009 and 1 January 2010						
Cost	13,026	467,822	645	742	8,221	490,456
Accumulated depreciation	(2,296)	(55,511)	(206)	(115)	–	(58,128)
Net carrying amount	10,730	412,311	439	627	8,221	432,328
At 31 May 2010						
Cost	13,674	468,228	1,029	1,198	8,408	492,537
Accumulated depreciation	(2,477)	(69,073)	(250)	(188)	–	(71,988)
Net carrying amount	11,197	399,155	779	1,010	8,408	420,549

All of the property, plant and equipment owned by the Group are located in the PRC.

As at 31 December 2007, 2008 and 2009 and 31 May 2010, no property, plant and equipment of the Group had been pledged to secure the interest-bearing bank loan granted to the Group.

14. PREPAID LAND LEASE PAYMENTS

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at 1 January	6,888	6,637	6,386	6,135
Addition during the year	–	–	–	78,883
Recognised during the year	(251)	(251)	(251)	(762)
Carrying amount at end of the year	6,637	6,386	6,135	84,256
Current portion included in prepayments, deposits and other receivables *(note 19)*	(251)	(251)	(251)	(1,829)
Non–current portion	6,386	6,135	5,884	82,427

The Group's leasehold lands are held under a medium term lease ranging from 40 years to 50 years and is situated in Mainland China.

15. DEPOSITS FOR PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2009 and 31 May 2010, the Group entered into a number of contracts with independent third parties and made prepayments in respect of the purchase of property, plant and equipment mainly for Full Win.

16. INVESTMENT IN SUBSIDIARIES

Company

	31 December 2009	31 May 2010
	RMB'000	*RMB'000*
Unlisted investments, at cost	1	1

Investments in subsidiaries represent the cost of the entire interests in Full Smart and Eminent Gains. Details of investments in subsidiaries are set out in note 1 of Section II.

17. INVENTORIES

	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	2,267	4,700	3,339	4,722
Finished goods	3,032	3,933	2,026	3,878
Parts and consumables	5,654	4,240	4,058	3,842
	10,953	12,873	9,423	12,442

18. TRADE RECEIVABLES

The Group generally requires its customers to make payment upon goods delivery, except for those long standing customers with bulk purchases and good payment history, where deferred payments are normally accepted. The Group does not have a universal credit period granted to the customers. The Group seeks to maintain strict control over its outstanding receivables and keeps close monitoring on them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

An aged analysis of the trade receivables as at each of the statement of financial position dates, based on the invoice date, is as follows:

	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	6,625	17,534	24,437	18,396
1 to 3 months	993	–	–	–
	7,618	17,534	24,437	18,396

There were no provisions for impairment of trade receivables as at 31 December 2007, 2008 and 2009 and 31 May 2010.

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

The trade receivables as at 31 December 2007, 2008 and 2009 and 31 May 2010 are considered to be neither past due nor impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for supplies	105	19,060	47,923	40,384
Deferred expenses	204	204	–	138
Deposits and other receivables *(note 30)*	1,110	118	868	1,981
Current portion of prepaid land lease payments *(note 14)*	251	251	251	1,829
	1,670	19,633	49,042	44,332

At 31 December 2007, 2008 and 2009 and 31 May 2010, the net balance of prepayments, deposits and other receivables was neither past due nor impaired. Financial assets included in the above balance relate to receivables for which there was no recent history of default.

20. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

Group

		31 December			31 May
		2007	**2008**	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances		78,166	107,261	374,139	666,508
Less: Pledged bank deposits	*(a)*	–	–	(50,000)	–
Cash and cash equivalents	*(b)*	78,166	107,261	324,139	666,508

Company

	31 December	31 May
	2009	**2010**
	RMB'000	*RMB'000*
Cash and bank balances *(note 30)*	88	88

Notes:

(a) The Group's pledged bank deposits were pledged as security for issuing bank acceptance notes to the suppliers.

(b) As at 31 December 2007, 2008 and 2009 and 31 May 2010, the Group's cash and bank balances and the time deposits of the Group denominated in Renminbi ("RMB") amounted to RMB78,138,000, RMB107,015,000 and RMB319,907,000 and RMB655,400,000 respectively. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

21. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at 31 December 2007, 2008 and 2009 and 31 May 2010, based on the invoice date, is as follows:

	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	1,647	1,703	1,738	2,067
1 to 3 months	183	–	–	–
	1,830	1,703	1,738	2,067
Bills payable	–	–	50,000	–
	1,830	1,703	51,738	2,067

The Group normally obtains credit terms ranging from 1 to 3 months from its suppliers. Trade payables are unsecured and interest-free. The carrying amounts of the trade payables and bills payable approximate to their fair values.

All the bills payable bear maturity dates within 180 days.

22. INTEREST-BEARING BANK LOAN

	31 December 2009			31 May 2010		
	Effective interest rate	**Maturity**		**Effective interest rate**	**Maturity**	
	(%)		*RMB'000*	*(%)*		*RMB'000*
Current						
Bank loan – unsecured*	5.841%	2010	100,000	5.841%	2010	100,000

*: The bank loan was guaranteed by Zhongkai Metal Products (Beijing) Co., Ltd. ("Zhongkai Metal", 中凱金屬製品(北京)有限公司), an independent third party, pursuant to a maximum guarantee contract entered into between Zhongkai Metal and Bank of Communications.

The carrying amounts of the Group's interest-bearing bank loan approximate to its fair values.

23. OTHER PAYABLES AND ACCRUALS

Group

	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receipt in advance from customers	13,000	–	–	1,654
Other payables *(note 30)*	38,468	3,534	9,683	3,088
Accruals	2,385	1,595	2,486	2,287
Payroll payable *(note 30)*	357	403	392	488
Other tax payable	3,275	2,785	3,910	6,938
	57,485	8,317	16,471	14,455

Company

	31 December	31 May
	2009	**2010**
	RMB'000	*RMB'000*
Accruals	790	352

Other payables and accruals are non-interest-bearing and are repayable on demand or within six months. Included in the other payables balance was an amount of approximately HK$29,809,000 (equivalent to approximately RMB27,891,000) due to a previous potential investor ("Previous Potential Investor") as at 31 December 2007. During the period from August to October 2007, a series of agreements (the "2007 Agreements") were entered into among the Previous Potential Investor, Mr. Zhang, Full Smart and Dongying Shengli for the purpose of a potential pre-IPO investment into the Group, pursuant to which it was conditionally agreed among the parties that (i) the Previous Potential Investor would, for a consideration of HK$100 million, subscribe for 20% of the issued share capital of Full Smart as enlarged by the subscription (the "Proposed Subscription"); and (ii) the shares of Full Smart and the equity interest of Dongying Shengli would be charged or mortgaged to the Previous Potential Investor as security for the Proposed Subscription. In late 2007, an amount of HK$50,000,000 (equivalent to approximately RMB46,781,000) was advanced by the Previous Potential Investor to the Group as a deposit ("Investment Deposit") pending fulfillment of certain conditions precedent as stipulated in the 2007 Agreements. However, subsequently, the Previous Potential Investor decided not to proceed with the Proposed Subscription and demanded refund of the Investment Deposit in full with interest. As of 31 December 2007, approximately HK$20,191,000 (equivalent to approximately RMB18,890,000) has been repaid by the Group to the Previous Potential Investor and the remaining balance of approximately HK$29,809,000 (equivalent to approximately RMB27,891,000) due from the Group to the Previous Potential Investor was recorded as other payable in the consolidated statement of financial position of the Group. In 2008, the remaining balance of approximately HK$29,809,000 (equivalent to approximately RMB27,891,000) plus discretionary interest of approximately HK$8.9 million (equivalent to approximately RMB7.9 million) was repaid to the Previous Potential Investor. The charge over the shares of Full Smart was later removed pursuant to a board of director resolution of Full Smart on 15 April 2009 and the charge over the equity interest of Dongying Shengli was released in September 2010.

On February 4, 2010, the Previous Potential Investor issued a claim against Full Smart, Mr. Zhang and Dongying Shengli for unspecified damages and declaratory relief. Further details related to this potential litigation are set out in note 26 to the Financial Information.

24. ISSUED CAPITAL

The Company was incorporated on 27 August 2009 with an authorised share capital of HK$1,000,000 divided into 100,000,000 shares of HK$0.01 each. On 27 August 2009, one share was allotted and issued, at nil consideration, to Codan Trust Company (Cayman) Limited as subscriber who then transferred the same to Apex Wide at par value on the same date. On 30 April 2010, 99 shares of HK$0.01 each were allotted and issued fully paid to Apex Wide. Pursuant to a sale and purchase agreement as supplemented by a supplemental agreement dated 25 April 2010 and 29 April 2010, respectively, on 30 April 2010, three shares of the Company were transferred to China Angel Investment Management Limited ("China Angel") from Apex Wide at a consideration of HK$37,500,000. Pursuant to a sale and purchase agreement dated 12 May 2010, on the same date, one share of the Company was transferred to China Angel from Apex Wide at a consideration of HK$12,500,000. Pursuant to another sale and purchase agreement dated 12 May 2010, on the same date, two shares of the Company were transferred to Chinaland Investment Group Limited ("CIG") from Apex Wide at a consideration of HK$25,000,000.

Save for aforesaid, the Company has not carried on any other businesses since the date of its incorporation.

The issued capital balances as presented in the consolidated statements of financial position as at 31 December 2007 and 2008 represented the issued combined paid-in capital of the companies now comprising the Group as set out in note 1 to this report.

25. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Group.

26. CONTINGENT LIABILITY

On 4 February 2010, a previous potential investor ("Previous Potential Investor") issued a claim against Full Smart, Mr. Zhang and Dongying Shengli (the "Alleged Defendants") for unspecified damages and declaratory relief. Further details are given in note 23 to the Financial Information. The related writ of summons has not been served on any of the Alledged Defendants, nor has the Previous Potential Investor served and/or put forward any statement of claim. The precise basis of the claim is unknown as of the date of this report as neither the writ of summons nor the indorsement of claim provides for a specified claim. Based on the legal advice obtained, the directors are of the opinion that any claims against the Company or any subsidiaries of the Group are unfounded. In addition, based on legal advice, the Group has performed its obligations to release the security over the shares of Full Smart and equity interest of Dongying Shengli previously pledged to the Previous Potential Investor. Accordingly, the directors are of the opinion that the possibility that the Group would lose control over Full Smart and/or Dongying Shengli should the potential legal proceeding materialise is remote.

27. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 15 years. At 31 December 2007, 2008 and 2009, and 31 May 2010 the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

		31 December		31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	408	420	349	3,224
Second to fifth years, inclusive	1,005	748	616	4,841
After five years	188	38	1,495	1,294
	1,601	1,206	2,460	9,359

28. COMMITMENTS

In addition to the operating lease commitments set out in note 27 above, the Group had the following capital commitments as at the end of each of the reporting periods:

		31 December		31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Plant and machinery	17,998	137,356	160,007	180,751
Technology transfer fee	–	–	12,000	12,000
	17,998	137,356	172,007	192,751
Authorised, but not contracted for:				
Plant and machinery	–	375,613	127,688	336,945
	17,998	512,969	299,695	529,696

29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the Group had the following material transactions with related parties during the Relevant Periods:

(a) Recurring transactions

	Year ended 31 December			Five–month period ended 31 May	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Rental expenses paid to a related company	61	98	111	46	46

The Group entered into tenancy agreements with Shandong Quanxin Stainless Steel Co., Ltd. ("Shandong Quanxin", 山東泉信不銹鋼有限公司), a company of which Mr. Zhang, a director of the Company, is also a director. The tenancy agreements are for (i) a lease of offices from Shandong Quanxin for a term of six years at annual rental of RMB60,955 since July 2004 for Dongying Shengli, a subsidiary of the Company incorporated in Dongying, Shandong Province, China; which has been subsequently extended for additionally two years, commencing from 1 July 2010 and (ii) a lease of offices from Shandong Quanxin for a term of three years at an annual rental of RMB50,000 since March 2008 for Full Win, a subsidiary of the Company incorporated in Zibo, Shandong Province, China.

The rentals were made at prices based on the mutual agreements between the parties. In the opinion of the directors which was based on the view of independent professional qualified valuers, the rental prices paid were consistent with the prevailing market rents for similar premises in similar locations. The above related party transaction will continue after the listing of the Company's shares on the Stock Exchange.

(b) Outstanding balances with related parties:

	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due from:				
Shandong Quanxin Stainless Steel Co., Ltd. (山東泉信不銹鋼有限公司) *(note ii)*	1,038	–	–	–
Zibo Jinpeng Copper Co., Ltd. (淄博金鵬銅業有限公司) *(note iii)*	166	–	–	–
	1,204	–	–	–
Due to:				
Shandong Jinpeng Copper Co., Ltd. (山東金鵬銅業有限公司) *(note i)*	11,326	–	–	–
Shandong Quanxin Stainless Steel Co., Ltd. (山東泉信不銹鋼有限公司) *(note ii)*	–	345	423	469
	11,326	345	423	469
Amount due to a director:				
Mr. Zhang	21,407	89,860	76,412	80,804
Amount due to the immediate holding company:				
Apex Wide	–	–	174,326	283,225

Notes:

(i) Shandong Jinpeng Copper Co., Ltd. (山東金鵬銅業有限公司) is a company in which Mr. Zhang, a director of the Company, has equity interests and is also a director.

(ii) Shandong Quanxin Stainless Steel Co., Ltd. ("Shandong Quanxin", 山東泉信不銹鋼有限公司) is a company of which Mr. Zhang, a director of the Company, is also a director.

(iii) Zibo Jinpeng Copper Co., Ltd. (淄博金鵬銅業有限公司) is a company of which Mr. Zhang Chuan Ke, a director of Dongying Shengli, is also a director.

The balances with related parties and a director are of a non-trade nature, unsecured, interest-free and repayable on demand. As at the date of this report, except for the amount due to Shandong Quanxin related to the lease of offices, all the Group's non-trade payables due to related parties had been fully settled.

(c) Compensation of key management personnel of the Group:

	Year ended 31 December			Five–month period ended 31 May	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Short term employee benefits	66	401	397	165	165
Post–employment benefits	8	8	7	3	3
Total compensation paid to key management personnel	74	409	404	168	168

Further details of directors' emoluments are included in note 9.

(d) Indemnification from Mr. Zhang

As further explained in note 26 to the Financial Information, a writ of summons with an indorsement of claim was issued against the Alleged Defendants on 4 February 2010. Mr. Zhang, the major shareholder of the Company, has undertaken to indemnify the Group against all damages, losses, expenses or liabilities which may arise as a result of, relating to or in connection with the litigation, should the purported claims materialise.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting periods are as follows:

Financial assets-loans receivables

	Group			
	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables *(note 18)*	7,618	17,534	24,437	18,396
Financial assets included in prepayments, deposits and other receivables *(note 19)*	1,110	118	868	1,981
Amounts due from related companies *(note 29)*	1,204	–	–	–
Pledged deposits *(note 20)*	–	–	50,000	–
Cash and cash equivalents *(note 20)*	78,166	107,261	324,139	666,508
	88,098	124,913	399,444	686,885

Financial liabilities at amortised cost

	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables *(note 21)*	1,830	1,703	51,738	2,067
Financial liabilities included in other payables and accruals *(note 23)*	38,825	3,937	10,075	3,576
Interest–bearing bank loan *(note 22)*	–	–	100,000	100,000
Amount due to a director *(note 29)*	21,407	89,860	76,412	80,804
Amount due to the immediate holding company *(note 29)*	–	–	174,326	283,225
Amounts due to related companies *(note 29)*	11,326	345	423	469
	73,388	95,845	412,974	470,141

Financial assets-loans receivables

	31 December	31 May
	2009	**2010**
	RMB'000	*RMB'000*
Cash and cash equivalents *(note 20)*	88	88

Financial liabilities at amortised cost

	31 December	31 May
	2009	**2010**
	RMB'000	*RMB'000*
Amount due to a subsidiary	2,353	3,000
Amount due to a director	121	271
	2,474	3,271

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans, amount due to a director, related companies and the immediate holding company and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The carrying amounts of the Group's financial instruments approximated to their fair values at the end of each of the reporting periods. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. The Group applies prudent strategies to its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Business risk

The Group conducts its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the chemical industry.

Interest rate risk

Management does not anticipate any significant impact resulting from the changes in interest rates because most of the Group's loans as at the end of each of the reporting periods were at fixed interest rates which have no significant impact on cash flow interest rate risk.

Foreign currency risk

The Group's businesses are located in Mainland China and most of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. Fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on the Group's results. The Group has not hedged its foreign exchange rate risk.

A reasonably possible change of 5% in the exchange rate between the Hong Kong dollar and RMB would have no material impact on the Group's profit or loss during the Relevant Periods and there would be no material impact on the Group's equity.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, prepayments, deposits and other receivable, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There is no significant concentration of credit risk within the Group.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of the Group's financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities at the end of each of the reporting periods, based on the contracted undiscounted payments, is as follows:

Group

	31 December 2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	1,830	–	–	–	1,830
Financial liabilities included in other payables and accruals	38,468	357	–	–	–	38,825
Amount due to a director	21,407	–	–	–	–	21,407
Amounts due to related companies	11,326	–	–	–	–	11,326
	71,201	2,187	–	–	–	73,388

	31 December 2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	1,703	–	–	–	1,703
Financial liabilities included in other payables and accruals	3,534	403	–	–	–	3,937
Amount due to a director	89,860	–	–	–	–	89,860
Amounts due to related companies	345	–	–	–	–	345
	93,739	2,106	–	–	–	95,845

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables and bills payable	–	1,738	50,000	–	–	51,738
Financial liabilities included in other payables and accruals	9,683	392	–	–	–	10,075
Interest–bearing bank loan	–	–	105,841	–	–	105,841
Amount due to a director	76,412	–	–	–	–	76,412
Amount due to the immediate holding company	174,326	–	–	–	–	174,326
Amounts due to related companies	423	–	–	–	–	423
	260,844	2,130	155,841	–	–	418,815

	31 May 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	2,067	–	–	–	2,067
Financial liabilities included in other payables and accruals	3,088	488	–	–	–	3,576
Interest–bearing bank loan	–	105,841	–	–	–	105,841
Amount due to a director	80,804	–	–	–	–	80,804
Amount due to the immediate holding company	283,225	–	–	–	–	283,225
Amounts due to related companies	469	–	–	–	–	469
	367,586	108,396	–	–	–	475,982

Company

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to a subsidiary	2,353	–	–	–	–	2,353
Amount due to a director	121	–	–	–	–	121
	2,474	–	–	–	–	2,474

	31 May 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to a subsidiary	3,000	–	–	–	–	3,000
Amount due to a director	271	–	–	–	–	271
	3,271	–	–	–	–	3,271

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is total debts divided by total assets. The Group's policy is to maintain the gearing ratio to be less than 50%. Total debts include amount due to a director, amounts due to related companies, amount due to the immediate holding company, trade and bills payables, interest-bearing bank loan and financial liabilities included in other payables and accruals. The gearing ratios at the end of each of the reporting periods were as follows:

	31 December			**31 May**
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade bills payables *(note 21)*	1,830	1,703	51,738	2,067
Financial liabilities included in other payables and accruals *(note 23)*	38,825	3,936	10,075	3,576
Interest–bearing bank loan *(note 22)*	–	–	100,000	100,000
Amount due to a director *(note 29)*	21,407	89,860	76,412	80,804
Amounts due to related companies *(note 29)*	11,326	345	423	469
Amount due to the immediate holding company *(note 29)*	–	–	174,326	283,225
Total debts	73,388	95,844	412,974	470,141
Total assets	537,159	678,705	1,182,784	1,336,646
Gearing ratio	13.7%	14.1%	34.9%	35.2%

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 May 2010.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong